

IDAHO LOTTERY



STRATEGIC PLAN

FISCAL YEARS 2008-2011

Submitted this 1st day of July 2006

A handwritten signature in black ink, appearing to read "Roger D. Simmons". The signature is fluid and cursive, with a large initial 'R'.

Roger D. Simmons, Director

I. MISSION STATEMENT:

The mission of the Idaho Lottery is to maximize net income and the resulting annual dividend payment to Idaho public schools and building

II. Goals:

In order to achieve our mission, the lottery must simultaneously pursue the following goals:

- A. **INCREASE SALES REVENUES**, by offering and promoting a variety of entertaining lottery products through a convenient network of retail outlets.
- B. **CONTROL EXPENSES**, by achieving operational efficiencies and cost controls.

III. Objectives:

A. Revenue increases:

1. **Increase Powerball revenues**. Powerball sales represent slightly more than one-third of the Lottery's total sales in fiscal year 2006. High Powerball sales are the result of high jackpots which are primarily a factor of over-all player luck. While the Lottery routinely advertises the game--especially when the jackpot is high--marketing and promotion have less effect on Powerball sales than, for example, on the sale of scratch tickets.

The one area in which the Lottery can have a direct impact on Powerball revenues is through increased promotion of the *Power Play* feature of the game. For an additional \$1 on each Powerball play, players have an opportunity to have any winning prize--other than the jackpot--multiplied by a factor from two to five. (The multiplying factor is determined by a separate ball drawing). Presently, *Power Play* sales make up approximately 14% of total Powerball revenues. An increase of 1% in *Power Play* sales will increase total Powerball sales by slightly less than one-half million dollars a year.

2. **Increase Scratch ticket Revenues**. Scratch tickets make up 62% of the Lottery's total sales for fiscal year 2006. The Lottery's objective is to move players from buying fewer \$1 scratch tickets to at least an equal number of the more expensive tickets--hopefully in the \$3 to \$5 range. In

order to accomplish this, the higher priced tickets must be more entertaining and thus have a higher perceived value. This is accomplished through introducing new unique play formats, graphics and prize structure. The impact of this effort over the period from fiscal year 2004 through 2006 is demonstrated in the following table:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
One-dollar games	\$13,376,481	\$15,386,911	\$16,287,791
Two-dollar games	\$9,730,284	10,907,352	\$10,025,856
Three-dollar games	\$31,190,340	31,112,193	\$26,756,865
Four-dollar games	\$0	799,360	\$0
Five-dollar games	\$10,777,774	6,499,258	\$5,727,740
Seven-dollar games	\$6,281,898	3,292,725	\$4,802,119
Ten-dollar games	\$3,993,800	4,008,460	\$0
fifteen-dollar games	\$5,636,340	5,740,395	\$4,915,800
Total Sales	<u>\$80,986,917</u>	<u>\$77,746,654</u>	<u>\$68,516,171</u>
Increase over prior year	\$3,240,263	\$9,230,483	\$7,463,793

B. Cost Containment:

1. Control operating costs. The Lottery's costs fall into three major categories: Prizes, Advertising and Administration. The costs also fall into three sub-classifications: variable (vary with the level of sales, i.e. cost of tickets), fixed (independent of the level of sales, i.e. rent, telephone, etc.) and semi-variable (have a component of both fixed and variable. i.e., advertising costs for Powerball. There is a basic advertising program for Powerball, but additional a special "jackpot alert" advertising program kicks in when the jackpot exceeds \$100 million.

Prize costs are almost entirely variable and thus rise and fall with the level of sales. The major control is exerted during the development of the prize structures for scratch games, but even here a balance must exist between cost control and making the game attractive and interesting to the player.

The Lottery has been successful in its effort to control its fixed and semi-variable costs through a system of well developed and closely monitored operating budgets. The objective for fiscal 2008 through 2011 is to reduce--in relative terms-- the variable cost of producing a both a lotto and scratch ticket.

Beginning in February 2007, the Lottery will operate its lotto games (Powerball, Wild Card and Pick-3) under a contract with a newly selected vendor, INTERLOT, Inc. replacing the current vendor, GTECH, Inc., The

anticipated cost of under the new contract as a percentage of sales is expected to drop from approximately 2.5% of total sales to 2.0% of total sales or nearly \$700,000 per year.

The lottery also expects its relative cost of scratch tickets to drop as well. This is because the cost of the higher price tickets is slightly less than a \$1 ticket. Anticipated savings resulting from a shift way from \$1 tickets to more \$4 and \$5 tickets will be in the range of \$40,000 per year.

IV. Performance Measures.

Clearly the most effective measure of performance an enterprise operation such as the Lottery is its statement of Revenues and Expenditures and Net Income.

V. Bench Marks:

	<u>FY-2008</u>	<u>FY-2009</u>	<u>FY-2010</u>	<u>FY-2011</u>
Lotto Sales:				
Powerball	\$47,000,000	\$48,500,000	\$50,000,000	\$52,000,000
WildCard II	3,500,000	3,600,000	4,000,000	4,500,000
Pick 3	<u>1,300,000</u>	<u>1,400,000</u>	<u>1,500,000</u>	<u>1,600,000</u>
Total Lotto				
Sales	51,800,000	53,500,000	55,500,000	58,100,000
Scratch ticket sales	86,000,000	88,000,000	90,000,000	92,000,000
Pull-tab ticket sales	<u>1,200,000</u>	<u>1,300,000</u>	<u>1,400,000</u>	<u>1,500,000</u>
Total Sales	139,000,000	142,800,000	146,900,000	151,600,000
Total Expenditures	104,000,000	106,800,000	109,900,000	113,600,000
Net Income	<u><u>\$35,000,000</u></u>	<u><u>\$36,000,000</u></u>	<u><u>\$37,000,000</u></u>	<u><u>\$38,000,000</u></u>

VI. External Factors.

As noted, there are two major external factors with possible negative implications for revenues. The first is the Powerball Jackpot. Below is a schedule showing for the fiscal years 2003-2006 the average announced Powerball jackpot for the 104 Powerball drawings each year. The next column is the average sales per draw and finally the total Powerball sales for the fiscal year. Note the dip in average jackpot, average draw sales and total sales for FY-2005.

<u>Year</u>	<u>Average Announced Jackpot Per Draw</u>	<u>Average Sales Per Draw</u>	<u>Annual Sales</u>
2006	\$82,345,192	\$430,385	\$44,760,077
2005	\$49,202,885	\$289,351	\$30,092,519
2004	\$62,099,048	\$339,498	\$35,647,385
2003	\$49,337,500	\$302,959	\$31,577,648

The second major external factor is the price of gasoline. Since more than 75% of lottery retailers are convenience stores who also sell gasoline, a continued increase in gasoline prices will naturally reduce the disposable income of our players. The decisions made by the player as to how that reduced disposable income will be allocated may have a negative effect on future lottery sales.